DOCUMENT RESUME

ED 096 036 RC 008 063

AUTHOR Nolan, Michael F.; Heffernan, William D.
TITLE The Rural Development Act of 1972: A Critical Analysis.
PUB DATE Aug 74
NOTE 18p.; Paper presented at the Annual Meeting of the Rural Sociological Society (Montreal, Quebec, August 1974)

EDRS PRICE MF-$0.75 HC-$1.50 PLUS POSTAGE
DESCRIPTORS Agricultural Occupations; *Community Development; Employment Potential; Failure Factors; *Federal Legislation; *Industrialization; Needs; Part Time Farmers; Population Growth; *Program Effectiveness; *Rural Development; Socioeconomic Influences; Working Women
IDENTIFIERS RDA 72; *Rural Development Act of 1972

ABSTRACT

The paper traces the legislative history and philosophical assumptions of the Rural Development Act of 1972, one of the most important pieces of rural development legislation to be enacted. This paper examines Title I of the Act, which transformed and amended the Consolidated Farmers Home Administration Act of 1961 to encompass more rural development programs, and added major new loans and grants for rural industrialization. An overview of rural industrialization research examines the economic, community, and agricultural effects of this development, consistently indicating that industrialization does produce more jobs in the nonagricultural sector of the economy. Several studies also report, though, that only a small number of the jobs are filled by unemployed local persons; most are taken by people from outside the area. Rural industrialization guarantees very little in terms of overall community improvement, and, because of the quantity of small towns (there are about 300 in Missouri alone), answers for most communities must come from other sources. More than anything else, the need in rural development acts is for a far more critical analysis of the legislation before it is passed. (KM)

ED 096036

U S DEPARTMENT OF HEALTH
EDUCATION & WELFARE
NATIONAL INSTITUTE OF
EDUCATION
THIS DOCUMENT HAS BEEN REPRODUCED EXACTLY AS RECEIVED FROM THE PERSON OR ORGANIZATION ORIGINATING IT. POINTS OF VIEW OR OPINIONS STATED DO NOT NECESSARILY REPRESENT OFFICIAL NATIONAL INSTITUTE OF EDUCATION POSITION OR POLICY

THE RURAL DEVELOPMENT ACT OF 1972:

A CRITICAL ANALYSIS

Michael F. Nolan and William D. Heffernan

Department of Rural Sociology

University of Missouri-Columbia

RC008063

Paper presented at the Annual Meeting of The Rural Sociological Society, Montreal, August 1974.

THE RURAL DEVELOPMENT ACT OF 1972: A CRITICAL ANALYSIS[1]

INTRODUCTION

The decade of the seventies thus far has witnessed a considerable amount of legislative attention directed at rural areas. Under the general heading of rural development no fewer than 48 bills were introduced in the first session of the 92nd Congress in the House of Representatives and 22 bills were introduced in the United States Senate (Robbins, 1971). Obviously, few of these became law but the sheer numbers give some indication as to the political importance of the issues involved.

The purpose of this paper is to focus on a portion of one of the most important pieces of rural development legislation, The Rural Development Act of 1972, (RDA-72), in terms of tracing its legislative history and its philosophical assumptions with particular regard to the provisions on rural industrialization. This hopefully will allow some determination as to how the assumptions of the Act correlate with the research that has been done on industrialization.

THE RURAL DEVELOPMENT ACT OF 1972

Although it's a difficult, if not impossible, task to know where the roots of any piece of legislation begin, at least a portion of the impetus

---

[1]The authors gratefully acknowledge the assistance of Ms. Jean McCartney in locating and summarizing many of the studies cited in this paper.

for the RDA-72 can be found in the Agricultural Act of 1970. Title 9, Section 901 (A) of that Act stated: "The Congress commits itself to a sound balance between rural and urban America. The Congress considers this balance so essential to the peace, prosperity, and welfare of all our citizens that the highest priority must be given to the revitalization and development of rural areas." Partly as a means of implementing that policy the Senate Committee on Agriculture and Forestry established a standing subcommittee on rural development, which was initially chaired by Senator Hubert H. Humphrey.

One of the first bills considered by this committee was a White House bill which sought to establish a revenue sharing program for rural development (S-161). Although this particular bill was never enacted, it did prompt the Senate Rural Development Subcommittee to hold a series of hearings on it and other related rural development issues during 1971. The actual RDA-72 originated for the most part in the House of Representatives (HR-2731) but in the course of Senate consideration it was substantially amended and emerged as S-342. A conference committee eventually had to iron out the differences; the result of which became the RDA-72, Public Law 92-419, signed by President Nixon on August 30, 1972.

The Act encompasses six titles which cover a variety of programs making this either the most sweeping rural development bill ever or the most cumbersome, depending on your point of view. Title I transformed and amended the Consolidated Farmers Home Administration Act of 1961 to encompass more rural development programs. It also added major new loans and grants for rural industrialization. Titles II and III expand the

allowable projects under several resource conservation laws to allow development of more water supplies for rural community and industrial development. Title IV establishes a program to improve rural fire protection. Title V provides funds for research and Extension efforts in rural development in the Land-Grant universities. Title VI is a catchall section which includes a number of miscellaneous items which have no particular importance for this paper. The principle focus in this paper will be on Title I which in future years will have the most effect on rural industrialization programs.

Briefly, Title I of the RDA-72 has a number of provisions designed to encourage rural industry and business. First, residents of rural areas will be eligible to obtain real estate loans to acquire or establish small business enterprises in rural areas (Section 102). Second, the assets that provided for security for these loans may be appraised at existing market value instead of using a lagged moving average as required by previous law (Section 103). Third, the Act establishes a new loan guarantee and insurance fund for rural development loans (Section 116). Fourth, Section 118 provides that public, private, or corporate organizations (either profit or non-profit) and individuals may obtain loans to improve the economic and environmental climate in rural communities. Fifty million dollars is authorized for grant funds for pollution control and abatement in rural areas and another fifty million is authorized for grants to build and equip rural industrial parks and similar facilities. In addition to these direct steps the Act also makes available funds to establish the necessary community prerequisities for industrial development. For example, Section 104 expands the scope of existing law and

allows loans not only for water and waste disposal systems but for all other essential community services as well.

If there remains any doubts about the commitment of the Congress to rural industrialization, the text of remarks made by Senators during the course of committee hearings leaves little room for alternate interpretation. For example, Senator Carl Curtis (Nebraska) stated during Senate hearings that as far as he was concerned, "Rural development means primarily more job opportunities. It means more industry in our small towns and cities in our agricultural states. This will reverse the migration from country to city...We need more industrial development in addition to better prices for agricultural products" (United States Senate, p. 25). In the same vein, Senator Henry Bellman (Oklahoma) stated that "A national rural development program must encourage industries to locate their plants in rural areas" (United States Senate, P. 52).

Given this rather obvious legislative commitment to rural industrialization as a worthwhile goal, what we now propose to do is review rural industrialization research studies in an attempt to determine if there is any reason to believe that the location of industry in small communities will in fact result in the "development" of that community. It should be made clear that our review by no means is meant to imply that we have located all relevant studies and in that sense, we cannot make any claim as to having exhausted the pool of research. Further, the studies cited are only examples of the type of research findings available and in that sense don't even exhaust all the research reports we were able to locate. It should be stressed that in no case was any study deliberately excluded from our review.

RURAL INDUSTRIALIZATION RESEARCH: AN OVERVIEW

At the outset, one of the most striking features of the research in the area of rural industrialization is its noticeable lack of quality and quantity. When research reports were located, they were generally of the "in-house" variety or some other form of publication not generally read by people doing research in the field. In addition, not only were studies difficult to find but very few even mildly sophisticated methodological techniques were used which make any conclusions necessarily tentative. For example, only a few studies utilized a control area (or community) which is extremely helpful in making an accurate assessment of the true effects of a new plant in a rural area. Nonetheless, there are some noteworthy findings which have relevance for the RDA-72. Our review will be presented in three sub-parts, each of which contains a mixture of positive and negative results.

Economic Effects

The one consistent finding of all rural industrialization studies and probably the one that nearly anyone could expect is that rural industrialization does produce more jobs in the non-agricultural sector of the economy. There can be no argument about this. There are however certain other findings which are not nearly as predictable.

From our review, we feel that probably the single most important question to raise is not how many jobs are created, but who in fact gets the jobs. For example, it is noteworthy that several studies report that only a small number of the jobs are filled by unemployed persons. More often the new jobs are filled by people who weren't previously in the

labor force (e.g., females), other employed persons, and underemployed workers (Petersen and Wright, 1967) or by people who commute from distant areas, change residences to be near the job or who are return migrants (Somers, 1958; Summers and Beck, 1972; Scott, 1973). For example, one study reported that half of the new manufacturing jobs in the study area were held by people outside the study area (Andrews and Bauder, 1967). In the same vein another study concluded that bringing a new industry to a community may defeat the reason for local industrialization by providing jobs for workers from the outside instead of local community (Field and Copp, 1967). Finally, a study by Miernyk (1969) concluded that "market induced" plants had only a negligable effect on existing community unemployment and further during the initial phase of a new plant's acquisition of personnel the jobs to be filled usually require skills not generally found in rural areas and are hence taken by "outsiders."

A second rationale given for locating a new industry in a rural area is the potential "multiplier" effect that every industrial job created will have on jobs in the so called service or commercial sector. While some studies have shown a relationship between these two, at best it can be described as a weak relationship. Casada (1954) noted that when basic employment increased, employment also increased in the non-basic industries and in fact when basic employment declined, the non-basic industries continued to show moderate increases. Unfortunately, this is not universally true. A study by Wadsworth and Conrad (1966) showed that in spite of the fact that there were 100 manufacturing jobs created in a community, there was a net gain of only two jobs in the service sector. A small multiplier at best. Another study found that in spite of the fact that

85 additional jobs were created in the study area, unemployment actually increased during the period the study was conducted. The author concluded that one reason for this was a high level of disguised unemployment in the community prior to the opening of the plant. For example, women began showing up on the unemployment rolls for the first time after their initial employment in the town's shirt manufacturing plant. Also, men who were intermittently emplyed during the period of the study who had wives employed at the plant joined the unemployment rolls rather than looking for another job outside the community (Jordon, 1967). Andrews and Bauder (1967) did observe an increase in employment in the service sector; in another study by the USDA it was found that of every 1,177 manufacturing jobs created there were only 98 new service jobs which emerged as a direct result of the increase in manufacturing. A positive relationship to be sure but not nearly as large as might have been expected. Finally, another study ironically noted that although manufacturing employment increased and income increased in terms of total wages paid, business activity remained about the same during the time period analyzed (Braschler, 1967). The author attributed this to improved transportation which facilitated shopping outside the county. On the positive side, at least three studies reported an overall increase in the "level of living" of employees' families (Bertrand and Osborne, 1960; Andrews and Bauder, 1967; Jordon, 1967).

Community Effects

This category is a rather mixed bag in terms of topics. First, we examined the effect of industrialization on population. Unfortunately, it is not clear what this relationship is. One study reported a constant

relationship between employment in a town's basic industry and the total population of the community (Casada, 1964). Another study reports that in spite of the opening of a new industrial plant the population of the community continued to decline although it was at a much slower rate than previously. Also in the same community there was a slower rate of out migration of young people (Andrews and Bauder, 1967). At the opposite end of the continuum, a study by Wadsworth and Conrad (1966) reported a total population increase of only three during the study period and Enoch and Mangum (1962) observed that there was no close relationship between population growth and industrial employment.

There did seem to be some positive effects on community services. For example, Bertrand (1960) noted that schools and churches in the community had apparently improved somewhat, and Braschler (1967) noted an increase in assessed evaluation of property in the community he examined. In the same vein, Jordon (1967) noted that a better water system and improved medical services were an apparent spin off of a new industry in the community he studied.

All is not uniformily positive for the community however. A rather exhaustive study by the USDA (1970) found that new plants may well cost the community more than they return in tax revenue by a considerable amount, and the fiscal impact of new plants is not uniform across governmental units. Local governing bodies may have to assume a much higher proportion of the cost and receive a much lower proportion of the benefits than other governmental organizations such as counties or states.

Other likely community consequences which could be either negative or positive depending on your perspective include an increase in both

labor costs and land prices both due to increased competition (Pescatore, 1971). Also, a new plant may introduce a change in the local power structure with more of the control shifting to new (influential) arrivals (Stone and Form, 1953; Bertrand and Osborne, 1959; Schermerhorn, 1969; Bandini, 1971).

In terms of the attitudes of community residents apparently little systematic change can be expected with the possible exception of an increased favorableness to non-farm employment (Kligman, 1969). One community subgroup that is particularly subject to change is community elites who can be expected to undergo a considerable shift in opinion if they are displaced in the community power structure (Smith, Hogg and Reagan, 1971).

Agricultural Effects

Several studies noted that the increase in jobs in the manufacturing sector has led to making part-time farming a more viable occupation (Miernyk, 1969; Wilbur and Maitland, 1968; Andrews and Bauder, 1967). Nearly all studies which reported an agricultural impact noted that there was a decrease in the number of farm operations but whether this can be attributed directly to new plants in light of the prevailing national trend toward farm consolidation is difficult to say. It was interesting to note that two studies reported that for employee-farmers, there was very little change in their farming operations but the changes that did occur were in the direction of substituting capital for labor (Scott, 1973; Bertrand, 1960). Also another study noted that during the study period there was an increasing capacity of farmers to incur debt, as well as an increase

in livestock investment (Jordon, 1967). Braschler (1967) noted that the number of farms declined but the number classified as commercial increased during his period of study.

Also relevant here is an observation by Clawson (1971) that the agricultural structure of a region has a major bearing on the impact of a new plant. He observes that when a plant located in an area characterized by small (but economically viable) farm operations, there has remained a substantial population in the open country and small towns, much of it dependent on employment in the new plant. This is contrasted with the impact of industry in areas typified by large farms where towns are seperated by some distance in which case the new plant will be forced to recruit its labor force from outside the community affected. In the long run this will have a much greater effect on the human geography of the rural area concerned. Interestingly, while a new plant may reduce the number of full time farm workers, it may actually increase the availability of part time agricultural workers (Scott and Chen, 1973).

CONCLUSIONS

Even a casual examination of the aforementioned findings would lead one to conclude that rural industrialization guarantees very little in terms of overall community improvement. Lest anyone think that rural industrialization remains a rather trivial matter, it is interesting to observe that during the seven year period, 1962-1969, of all the jobs created through new plants and expansion of existing plants, 20 percent of the national total were in rural or partly rural communities and over one-third more in areas defined as non-metropolitan (Haren, 1970). Thus,

rural industrialization is no longer a myth but is in fact a reality. The question is: Is it always going to produce the anticipated results?

From our observations it is clear that rural industrialization does in fact produce jobs in the non-agricultural sector but it is also clear that those jobs will probably go to people other than those residing in the local community. This may be true for a variety of reasons. For example, local residents may not possess the necessary skills or capabilities which would make them desirable candidates for the new industry. In any event, rural communities may be severely deceived if they believe that new industries will necessarily produce a marked decrease in local unemployment or underemployment. This observation is consistent with that of Molotch (1973) who in an analysis of the fastest growing SMSA's in the United States noted that in spite of the fact that their population increased markedly during the time period studied, indicating substantial growth in numerous sectors of the economy, their unemployment rate in most cases stayed near the national average. This would seem to indicate that population growth is not a solution to the problem of local unemployment and that local growth does not make jobs but rather redistributes jobs. In addition the temporary creation of jobs during the construction phase may prompt unrealistic community expectations for future growth (Smith, Hogg, and Reagan; 1971).

On the practical side it is worth mentioning an observation by Braschler (1967) that even if industrialization were uniformly "good" only a very few small towns will find answers to their development problems by embarking upon a crash effort to secure industry. For example, within Missouri alone there are 211 towns with populations between 500

and 2500 people and 56 towns with populations between 2500 and 5000 people. There are simply not enough factories seeking sites to permit industrialization of 267 towns. So in spite of a community's best intentions and even if one anticipated all the best possible consequences, the answer for most communities is going to have to lie in solutions other than seeking new sources of industrial employment.

Hopefully, by now it is clear that the building blocks of Title I of the RDA-72 are weak at best. Its assumptions about the positive effect of rural industrialization for community development are highly speculative. Many communities are not going to find total or even partial solutions to their problems through rural industrialization as is at least implied in the RDA-72. Moreover, the tremendous emphasis given to industrialization in the Act, as opposed to other more innovative development schemes, in light of the mixed nature of the existing research gives one great cause for doubt as to the conscientiousness of those who drafted the legislation. In the testimony that was received there was at no time any hint of criticism directed at the ideology that industrialization is uniformly good.

It is obvious then that what perhaps is needed more than anything else in drafting legislation such as this, which promises so much and yet potentially can deliver so little, is a far more critical analysis of the effects of the legislation before it is passed. At the same time sociologists, economists, and others doing research in the area of rural industrialization have to share at least a portion of the responsibility for not making some of their potentially negative results known to the committees working on the bills. Some of these results were published

15 to 20 years prior to the passage of The Rural Development Act and many were done in the five to ten year period prior to 1972. By publishing the results in a form which few people read and in a style which makes them difficult to understand if they are found, social scientists have almost uniformly taken themselves out of the policy-making game. Thus, it is difficult to even imagine them being able to say "I told you so" when the Act does not live up to its grandiose promises. Hopefully, the next version of rural development legislation will see much more systematic input on the part of social scientists doing research in the field and the legislation will be structured to maximize the findings of that research, whatever they may be.

REFERENCES

Andrews, Wade H. and Ward W. Bauder
1967 "The Effects of Industrialization on A Rural County: A Comparison of Social Change in Monroe and Noble Counties of Ohio," Wooster: Ohio Agricultural Research & Development Center, Department Series 407 (July).

Bandini, Mario
1971 "National Policies for Development in Advanced Countries," Pp. 39-59 in Raanan Weitz (ed.), Rural Development In A Changing World. Cambridge, Massachusetts: The MIT Press.

Bertrand, Alvin L. and Harold W. Osborne
1959 Rural Industrialization In A Louisiana Community, Louisiana State Agricultural Experiment Station Bulletin 524 (June).

Bertrand, Alvin and Harold Osborne
1960 "Rural Industrialization: A Situational Analysis," Rural Sociology 25 (December): 387-393.

Braschler, Curtis and Dale Hagerman
1967 "Rural Industrialization Illustrated by Ava, Missouri." Business and Government Review 5 (May-June)

Casada, L. W.
1954 "The Economics of A One Industry Town." Arizona Business and Economic Review (December).

Clawson, M.
1971 "Agriculture in An Advanced Economy," Pp. 26-38 in Raanan Weitz (ed.), Rural Development In A Changing World, Cambridge, Massachusetts: The MIT Press.

Enoch, Rex and Wally Mangum
1962 "Industries and Population Growth in Texas Counties, 1950-1960." Texas Business Review 36: 256-258.

Field, Donald R. and James H. Copp
1967 "Industrialization and The Rural Community." Paper read at the Annual Meetings of The Rural Sociological Society, San Francisco.

Garrison, Charles B.
1972 "The Impact of New Industry: An Application of The Economic Base Multiplier to Small Rural Areas." Land Economics 5 (November): 329-337.

Haren, Claude C.
1970 "Rural Industrial Growth in The 1960's." American Journal of Agricultural Economics 52 (August): 413-437.

Jordon, Max F.
1967 "Rural Industrialization in The Ozarks: Case Study of A New Shirt Factory in Gassville, Arkansas." Washington, D.C.: USDA, ERS, Agricultural Economic Report 123.

Kligman, Atara
1969 Factors For and Against Industrialization Among Agricultural Youngsters in The Hilly Region of Israel. Settlement Department of The Jewish Agency. Israel.

Miernyk, William H.
1969 "Local Labor Market Effects of New Plant Locations." Business History Review.

Molotch, Harvey
1973 "The City As A Growth Machine." Unpublished paper, Department of Sociology, University of California at Santa Barbara.

Pescatore, Gabriel
1971 "The Role on Industry in The Development of Rural Areas." Pp. 104-112 in R. Weitz (ed.), Rural Development In A Changing World. Cambridge, Massachusetts: The MIT Press.

Petersen, John M. and Earl Wright
1967 "Dynamics Of A Small Area Labor Supply: A Case Study." Little Rock: Industrial Research and Extension Center, University of Arkansas.

Robbins, Francis G.
1971 "Rural Development Bills Introduced in The 92nd Congress, 1st Session Through September 17, 1971." Congressional Research Service, Library of Congress.

Schermerhorn, W. A.
1969 "Power in The Local Community," Pp. 168-175 in C.S. Heller (ed.), Structured Social Inequality. New York: MacMillan.

Scott, John T., Jr.
1973 "Profile Change When Industry Moves Into A Rural Area." Working Paper RID 73.7, Center for Applied Sociology, University of Wisconsin-Madison.

Scott, John T., Jr. and C. T. Chen
1973 "Impact of Rural Industrialization on Farm Organizations Within The Area Where Industry Locates," Unpublished Paper, Department of Agricultural Economics, University of Illinois at Champaign-Urbana.

Smith, Courtland L., Thomas C. Hogg and Michael J. Reagan
1971 "Economic Development: Panacea or Perplexity for Rural Areas?" Rural Sociology 36 (June).

Somers, Gerald
1958 "Labor Recruitment In A Depressed Area." Monthly Labor Review (October): 1113-1120.

Stone, Gregory P. and William H. Form
1952 "Instability in Status: The Problems of Hierarchy In The Community Study of Status Arrangements," American Sociological Review 18 (February): 149-162.

Summers, Gene F. and Elwood M. Beck, Jr.
1972 "Industrial Development and Urbanization: A U.S. Case." Paper presented at The Third World Congress of Rural Sociology, Baton Rouge, Louisiana.

United States Department of Agriculture
1970 "The Impact of New Industry on Local Government Finances In Five Small Towns in Kentucky," Economic Research Service, Agriculture Economic Report 191 (September).

United States Senate
1971 "Hearings on S.1612." Subcommittee on Rural Development of The Committee on Agriculture and Forestry. Part 1., (April 23).

Wadsworth, H. A. and J. M. Conrad
1966 "Impact of New Industry On A Rural Community." Indiana Agricultural Experiment Station Research Bulletin 811 (July).

Wilbur, George L. and Sheridan T. Maitland
1968 "Industrialization in Chickasaw County, Mississippi: A Study of Plant Workers." State College: Mississippi Agricultural Experiment Station Bulletin 566.